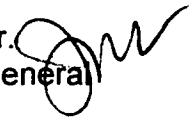




**PRESIDENT'S COUNCIL on INTEGRITY & EFFICIENCY
AUDIT COMMITTEE**

OCT 23 1995

**MEMORANDUM FOR MEMBERS OF THE PRESIDENT'S COUNCIL ON
INTEGRITY AND EFFICIENCY**

FROM : John P. Higgins, Jr. 
Acting Inspector General

SUBJECT : Quality of Non-Federal Audits for the Six-Month
Period Ended March 31, 1995

This is the PCIE's semiannual non-Federal audit quality report for the period ended March 31, 1995. This report provides the results of Inspectors General's (IG) desk reviews (DRs) and quality control reviews (QCRs) of audits of Federal activities performed by independent public accountants (IPAs) and State/Local auditors. The report contains information and data on audit quality, monetary findings, and sanctions taken against auditors who performed deficient work. Sixteen IGs reported non-Federal audit activities during this reporting period.

RESULTS OF DESK AND QUALITY CONTROL REVIEWS

The table below shows the results of the DRs and QCRs performed by sixteen IG offices during this period (See Attachments 1 through 4 for details).

	<u>DRs</u>		<u>QCRs</u>		<u>Total</u>	
Reports issued without changes or with minor changes. ¹	3536	90.0%	37	75.5%	3573	89.8%
Reports issued with major changes. ²	22	0.6%	9	18.4%	31	0.8%
Reports with significant inadequacies. ³	<u>372</u>	<u>9.4%</u>	<u>3</u>	<u>6.1%</u>	<u>375</u>	<u>9.4%</u>
Totals	<u>3930</u>	<u>100.0%</u>	<u>49</u>	<u>100.0%</u>	<u>3979</u>	<u>100.0%</u>

AUDIT QUALITY

Illustrated in Attachment 2 are the results of the reviews of A-128 audits. In general, the number of problem reports found in desk reviews remain relatively low and generate little concern. However, the results of QCRs⁴ on IPA audit reports are of concern. During this period 57.1% (37.0% in the previous period) of these audit reports were found to require major changes or were significantly inadequate. The results of QCRs on A-128 audit reports prepared by State or local auditors resulted in 28.6% (0.0% in the previous period) of these audit reports requiring major changes or were significantly inadequate.

The quality of A-133 audit reports has improved over past reporting periods. As illustrated in Attachment 3, 16.8% of the A-133 audit reports prepared by IPAs that were desk reviewed this period were found to require major changes or were significantly inadequate. This is an improvement from the 25.4% reported in the previous report. Of the 27 QCRs performed on A-133 audit reports prepared by IPAs 3.7% were found to require major changes or were significantly inadequate. This represents an improvement from 24.5% reported in the prior report. Also, during this period, the IGs desk reviewed only eight A-133 audit reports prepared by State or local auditors, no major problems noted. There were no QCRs performed on A-133 audits prepared by State or local auditors.

The problems with A-128 and A-133 audits continued to be primarily due to the following:

- a) Inadequate internal control report or lack of support for the report;
- b) Inadequate report on compliance or lack of support for the report;
- c) Inadequate compliance testing;
- d) Inadequate or missing findings;
- e) Improper or missing opinions;
- f) The working papers did not contain adequate documentation to support the audit;
- g) Lack of or incomplete financial statements; or
- h) A general failure to follow the proper auditing standards.

The quality of "other"⁵ audits appears to be improving. As illustrated in Attachment 4, 3.9% of the "other" audit reports prepared by IPAs that were desk reviewed this period were found to require major changes or were significantly inadequate. This represents an improvement in quality from 10.6% reported in the prior report. During this period there was only one QCR performed on "other" audit reports prepared by IPAs and this was found to be significantly inadequate. Also, there was only one desk review and no QCRs this period of "other" audit reports prepared by State or local auditors.

The primary problems with "other" audits are similar to the ones experienced with A-128 and A-133 audits.

MONETARY FINDINGS IN NON-FEDERAL AUDITS

Below are statistics covering unsupported costs and other costs questioned in non-Federal audits (See Attachment 5 for details). Amounts sustained by program officials this period are also presented as disallowed costs. These are costs for which management made decisions this period. Most of the costs would have been originally questioned in prior periods.

(Dollars in Millions)

Unsupported costs⁶	\$ 37.2
Other questioned costs⁷	<u>15.0</u>
Total questioned costs	<u>\$ 52.2</u>
Total disallowed costs	<u>\$ 38.2</u>

SANCTIONS

One of the sixteen IGs reported that they referred a total of two public accountants to the appropriate state regulatory board or AICPA for violations of generally accepted government auditing standards.

State Boards or the AICPA took disciplinary action on three CPAs that were referred in previous periods. Penalties assessed included work product reviews and additional hours of continuing professional education (CPE).

If you have any questions or comments concerning the information presented in this report, please contact me or Russell Young of my staff. We can be reached on (202) 205-5439 and (202) 205-9970, respectively.

Attachments

Endnotes

1. These reports required no changes or minor correction in order to be acceptable.
2. These reports required major changes to the audit report and/or correction of deficient substandard audit work. These errors do not render the audit report unusable.
3. These audit reports are received with deficiencies so great that users cannot rely on them. The reports are acceptable only after substantial revisions.
4. A portion of the QCRs are selected based on judgmental factors such as funding level of the auditee, risk analysis, or perceived problems by the desk reviewer. Therefore, a straight projection to the full audit universe should not be made.
5. Four of the sixteen IGs reporting this period included other non-Federal audit activity. Of these, two had significant activity (HHS and ED). The types of programs audited included the following:
 - HHS - Grants for the Head Start program, Runaway Youth, Office of Community Services, Community Health Centers, and various Public Health Service Funds.
 - ED - Student Financial Assistance Programs.
6. In general, this amount represents expenditures or uses of funds for which the auditor was unable to determine conformance with applicable requirements due to the auditee's failure to maintain adequate documentation.
7. Generally, other questioned costs are expenditures or uses of funds which the auditor, after reviewing available documents, concludes were not made in accordance with applicable legal requirements.

**RESULTS OF REVIEWS OF ALL NON-FEDERAL AUDITS
FOR THE SIX MONTHS ENDED
March 31, 1995**

	Without Major Change	With Major Change	With Significant Inadequacies	Total
Analysis of All QCRs:				
QCRs on All Audits	37	9	3	49
% to total	75.5%	18.4%	6.1%	100.0%
QCRs on Audits Conducted By IPAs	32	7	3	42
% to total	76.2%	16.7%	7.1%	100.0%
QCRs on Audits Conducted By State/Local Auditors	5	2	0	7
% to total	71.4%	28.6%	0.0%	100.0%
Analysis of All Desk Reviews:				
Desk Reviews on All Audits	3,536	22	372	3,930
% to total	90.0%	0.6%	9.4%	100.0%
Desk Reviews on Audits Conducted By IPAs	3,404	22	372	3,798
% to total	89.6%	0.6%	9.8%	100.0%
Desk Reviews on Audits Conducted By State/Local Auditors	132	0	0	132
% to total	100.0%	0.0%	0.0%	100.0%

**RESULTS OF REVIEWS OF A-128 AUDITS
FOR THE SIX MONTHS ENDED
March 31, 1995**

	Without Major Change	With Major Change	With Significant Inadequacies	Total
Analysis of A-128 Audit QCRs:				
QCRs on All A-128 Audits	0/1	8	2	24
% to total	52.4%	38.1%	9.5%	100.0%
QCRs on A-128 Audits Conducted By IPAs	6	6	2	14
% to total	42.9%	42.9%	14.2%	100.0%
QCRs on A-128 Audits Conducted By State/Local Auditors	5	2	0	7
% to total	71.4%	28.6%	0.0%	100.0%
Analysis of A-128 Audit Desk Reviews:				
Desk Reviews on A-128 Audits	1,054	2	5	1,061
% to total	99.3%	0.2%	0.5%	100.0%
Desk Reviews on A-128 Audits Conducted By IPAs	931	2	5	938
% to total	99.3%	0.2%	0.5%	100.0%
Desk Reviews on A-128 Audits Conducted By State/Local Auditors	123	0	0	123
% to total	100.0%	0.0%	0.0%	100.0%

**RESULTS OF REVIEWS OF A-133 AUDITS
FOR THE SIX MONTHS ENDED
March 31, 1995**

	Without Major Change	With Major Change	With Significant Inadequacies	Total
Analysis of A-133 QCRs:				
QCRs on All A-133 Audits	26	1	0	27
% to total	96.3%	3.7%	0.0%	100.0%
QCRs on A-133 Audits Conducted By IPAs	26	1	0	27
% to total	96.3%	3.7%	0.0%	100.0%
QCRs on A-133 Audits Conducted By State/Local Auditors	0	0	0	0
% to total	0.0%	0.0%	0.0%	0.0%
Analysis of A-133 Desk Reviews:				
Desk Reviews on All A-133 Audits	1,786	8	351	2,145
% to total	83.3%	0.4%	16.3%	100.0%
Desk Reviews on A-133 Audits Conducted By IPAs	1,778	8	351	2,137
% to total	83.2%	0.4%	16.4%	100.0%
Desk Reviews on A-133 Audits Conducted By State/Local Auditors	8	0	0	8
% to total	100.0%	0.0%	0.0%	100.0%

**RESULTS OF REVIEWS OF OTHER AUDITS
FOR THE SIX MONTHS ENDED
March 31, 1995**

	Without Major Change	With Major Change	With Significant Inadequacies	Total
Analysis of Other QCRs:				
QCRs on All Other Audits	0	0	1	1
% to total	0.0%	0.0%	100.0%	100.0%
QCRs on Other Audits Conducted By IPAs	0	0	1	1
% to total	0.0%	0.0%	100.0%	100.0%
QCRs on Other Audits Conducted By State/Local Auditors	0	0	0	0
% to total	0.0%	0.0%	0.0%	0.0%
Analysis of Other Desk Reviews:				
Desk Reviews on All Other Audits	696	12	16	724
% to total	96.1%	1.7%	2.2%	100.0%
Desk Reviews on Other Audits Conducted By IPAs	695	12	16	723
% to total	96.1%	1.7%	2.2%	100.0%
Desk Reviews on Other Audits Conducted By State/Local Auditors	0	0	0	0
% to total	0.0%	0.0%	0.0%	0.0%

**MONETARY FINDINGS
FOR THE SIX MONTHS ENDED
March 31, 1995
(In Millions of Dollars)**

	A-128			A-133			Other		
	IPA	State & Local	Total	IPA	State & Local	Total	IPA	State & Local	Total
Unsupported costs	\$ 1.2	\$26.6	\$27.8	\$ 5.1	\$ 0.0	\$ 5.1	\$ 4.3	\$ 0.0	\$ 4.3
Other questioned costs	5.1	0.5	5.6	6.3	0.0	6.3	2.4	0.7	3.1
Total questioned costs	<u>\$ 6.3</u>	<u>\$27.1</u>	<u>\$33.4</u>	<u>\$11.4</u>	<u>\$ 0.0</u>	<u>\$11.4</u>	<u>\$ 6.7</u>	<u>\$ 0.7</u>	<u>\$ 7.4</u>
Sustained unsupported	\$ 1.3	\$ 0.6	\$ 1.9	\$ 1.0	\$ 0.0	\$ 1.0	\$ 0.4	\$ 0.0	\$ 0.4
Sustained other questioned costs	3.0	28.2	31.2	3.2	0	3.2	0.8	0.0	0.8
Total disallowed costs	<u>\$ 4.3</u>	<u>\$28.8</u>	<u>\$33.1</u>	<u>\$ 4.2</u>	<u>\$ 0.0</u>	<u>\$ 4.2</u>	<u>\$ 1.2</u>	<u>\$ 0.0</u>	<u>\$ 1.2</u>

Note: The unsupported and other questioned costs are from reports processed and issued this semiannual period. The sustained amounts are from reports that management took resolution action on this period. Further, one agency which reported non-Federal statistics no longer has ability to determine the monetary results of the audits.